

PART – II PANCHAYATI RAJ INSTITUTIONS

CHAPTER - I

OVERVIEW ON FINANCES INCLUDING THE ACCOUNTING PROCEDURES OF THE PANCHAYATI RAJ INSTITUTIONS

1.1 Introduction

To promote greater autonomy at the grass root level and to involve people in identification and implementation of developmental programmes involving gram sabhas, the 73rd Constitutional Amendment Act, 1992 was promulgated (April 1993). According to the provisions of Article 243 G of the constitution, the legislature of the state may, by law, endow the Panchayats with such powers and authority, as may be necessary to enable them to function as institutions of self-government and such law may contain provision for the devolution of powers and responsibility upon Panchayat at appropriate level, subject to such conditions as may be specified therein with respect to:-

- (a) the preparation of plans for economic development and social justice;
- (b) the implementation of schemes for economic development and social justice as may be entrusted to them including those in relation to the matters listed in the Eleventh Schedule;

Similarly according to provisions of Article 243 H of the constitution, the legislature of state may

- (c) authorise a panchayat to levy, collect and appropriate such taxes, duties, tolls and fees in accordance with such procedure and subject to such limits; and
- (d) assign to a Panchayat such taxes, duties, tolls and fees levied and collected by the State Government for such purposes and subject to such conditions and limits.

Consequently, a three-tier system of Panchayati Raj Institutions (PRIs) had been established in the State by Madhya Pradesh Panchayati Raj Avam Gram Swaraj Adhiniyam (Act), 1993. (MPPRGSA) which came into force from January 1994.

- Zila Panchayat (ZP) for a district.
- Janpad Panchayat (JP) for a block; and
- Gram Panchayat (GP) for a village;

At present there are 48 ZPs, 313 JPs and 23051 GPs in the state. The last general elections for the Gram Panchayats were held during 2004-05.

1.2 Area and Population

Total areas (3,08,000 sq. km.) of the state was covered by 4.51 crore of rural population being 75 per cent of the total population of 6.03 crore as per 2001 census. Of this, 0.90 crore (15 per cent) and 1.21 crore (20 per cent) were Schedule Caste and Schedule Tribe.

1.3 Administrative arrangements

The over all administration of PRIs vests with the Principal Secretary to Government of Madhya Pradesh, Panchayat and Rural Development Department at Government level. The organisational structure of the Department, at District, Block and Village level is given in **Appendix -XVII**.

1.4 Accounting arrangements

1.4.1 Amendment in the Act

According to the recommendations of the Eleventh Finance Commission (EFC), Government of Madhya Pradesh, Finance Department (FD) decided (November 2001) that the Commissioner, Local Funds Audit (CLFA) shall be responsible for audit of accounts of local bodies and shall work under the Technical Guidance and Supervision (TGS) of the Comptroller and Auditor General of India (CAG). But PRIs' Acts were neither amended to empower the CAG nor any response was given even after regular correspondence with the Panchayati Raj Directorate (PRD). The matter was discussed in the meeting (November 2008) held with Principal Secretary for inclusion of provision of TGS in concerning Act & Rules. It was however decided that suitable action would be taken after consulting practices of other states.

1.4.2 Annual Accounts

As per Rule 63 of M.P. Panchayat Raj Avam Gram Swaraj Adhiniyam, 1993 the Secretary of the Panchayat or in his absence, such other persons as may be authorised in his behalf, by the General Administration Committee, shall prepare the Annual Accounts as prescribed in Rule 62 and place before the General Administration Committee, for consideration and approval, by 30th day of April each year. During test check of records of ZP Indore (22 GPs) and ZP Khandwa (19 GPs), it was seen that no such Annual Accounts were prepared by the test checked GPs.

1.5 Audit arrangements

As per recommendations of the EFC, audit of accounts of Panchayati Raj Institutions (PRIs) was entrusted to CLFA under the Technical Guidance and Supervision (TGS) of the C&AG of India by the State Government in November 2001. Accordingly the office of the Senior Deputy Accountant General Local Body Accounts and Audit is conducting audit of PRIs under TGS module.

1.6 Approval of audit plans

The CLFA was required to prepare the audit plan in consultation with the Principal Accountant General (PAG) to include selection / rotation of units audit party composition and deployment. The AG would approve the audit plan as a part of the TGS arrangement. However, in spite of request to the Government (February-November 2008), the audit plan of CLFA were never got approved from the PAG.

1.7 Constitution of State Legislature Committee

The EFC recommended that the report of C&AG relating to audit of accounts of PRIs was to be placed before a Committee of the State Legislature constituted on the same lines as Public Accounts Committee. In spite of request by the PAG to the Government (up to November 2008), the Committee was yet to be constituted (May 2009), Government, stated that it intends to include other class of local bodies within the purview of this class and is contemplating to amend M.P. Vidhan Sabha conduct of business rules.

1.8 Source of revenue

There were mainly two sources of funds for Local Bodies (i) Government grants and (ii) own revenues. Own revenue resources of PRIs comprise of tax and non-tax revenues realised by them. Other resources comprise (a) funds released by the State Government and Government of India (GOI) based on the recommendation of SFC, Twelfth Finance Commission (TFC) etc. (b) GOI and State share released for various central and State sector schemes.

1.9 Receipts and expenditure of PRIs

1.9.1 Funds (Share of tax revenue of the state, schemes and grants etc.) allocated to PRIs by the State Government through budget including GOI's share of the schemes and grants recommended by EFC & TFC were as under:-

(Rs. in crore)

Sl. No.	Year	Total Grant (Budget Provisions)	Actual Expenditure			Excess (+)/ Saving (-)
			Revenue	Capital	Total	
1.	2005-06	1957.96	1832.67	6.63	1839.30	(-) 118.66
2.	2006-07	2720.40	2241.73	0.04	2241.77	(-) 478.63
3.	2007-08	3239.39	2999.92	3.03	3002.95	(-) 236.44

It can be seen from the table that the budget provisions increased by 65 per cent during the year 2007-08 as compared to 2005-06 but the PRIs could not spend the amount, resulting into substantial saving from 2005-06 to 2007-08. The details of receipts of revenue and expenditure thereagainst in all PRIs were not being maintained at the PRD level. On being enquired, PRD replied (March 2009) that the same would be collected and furnished to audit.

1.9.2 State Finance Commission (SFC)

The FD accepted (March 2005) the recommendation of second SFC for devolution of 2.93 per cent of 90 per cent of the state's own tax revenue to PRIs. The position of grants released to PRIs through state budget during 2005-06 to 2007-08 were as under:

(Rs. in crore)

Year	Amount of own tax revenue of the state		Amount of share of own tax revenue to be allocated as per prescribed percentage (i.e. 2.93%)	Amount of share of own tax revenue (SFC grants) released to PRIs	Short fall (with percentage)
	Total	Net (After deduction of 10%)			
1	3	4	5	6	7
2005-06	9115	8203.50	240.36	207.91	32.45 (13)
2006-07	10473	9425.70	276.13	208.70	67.43 (23)
2007-08	12018	10816.20	316.91	243.00	73.91 (23)

Reasons for shortfall were neither available on record not stated to audit.

The devolution of funds under recommendations of SFC were meant to cover the tasks of basic services, vis-à-vis development of water supply and sanitation etc. The shortfall in release of funds to PRIs from 2005-06 to 2007-08 resulted in less availability of funds with them for the purpose envisaged by SFC.

1.9.3 Submission of utilisation certificates (UCs):

According to guidelines of basic services (issued by Government of Madhya Pradesh, Panchayat Department), UCs of SFC grants were required to be sent to the PRD by each CEO of ZP. Test-check (April-May 2009) of records of ZP Indore and Khandwa revealed that UCs¹ against the expenditure of Rs. 19.63 crore incurred during the period 2005-06 to 2007-08 were not sent to PRD. On being pointed out, the CEO (ZP) Indore and Khandwa stated (April-May 2009) that the UCs would be sent shortly to PRD.

Funds for execution of construction works under schemes like Sampurna Gramin Rojgar Yojana, Indira Awas Yojana, Prime Minister Gramodaya Yojana, National Scheme of Food for work etc are provided to executing agencies in two or three instalments and they were required to submit utilisation certificates within 15 days of incurring expenditure to obtain subsequent instalments of funds. The utilisation certificates after completion of works under such rural development schemes worth Rs. 3.37 crore in eight Janpad Panchayats (**Appendix –XVIII**) were awaited from executing agencies for last five years.

1.9.4 Non-utilisation of EFC grants:

On the recommendations of EFC, Government decided (November 2005) to computerise the accounting system of PRIs. For this purpose, out of total EFC

¹ Indore, Rs. 4.19 crore: Khandwa, Rs. 15.44 crore

grant of Rs. 501.02 crore, a sum of Rs. 20.11² crore was allocated to PRD. For maintenance of accounts of PRIs in a web-based system ‘Panch Lekha’ software developed with the help of National Information Central (NIC) was installed in 116 Janpad Panchayats (JPs) in November 2005 and in the remaining 197 JPs in August 2006 by National Informatics centre Services Incorporated (NICSII). It was however noticed that the accounts of the test-checked PRIs covering the audit period were not maintained in Panch Lekha software but other general software.

1.10 Position of Outstanding audit paragraphs:

As of March 2008, the number of outstanding audit paragraphs of PRIs included in the Inspection Reports (IRs) of CLFA excluding those of Gwalior region was 76443 Similarly the number of outstanding paras of AG’s Inspection Reports was 9723 on the date. Details of outstanding paragraphs were as under:

(A) Outstanding audit paragraphs of CLFA

(As on 31 March 2008)

Sl. No.	Financial Year	PRI			
		Total No. of outstanding audit paragraphs	Addition	No. of paragraphs settled	No. of paragraphs Outstanding
1.	2005-06	91686	4429	8514	87601
2.	2006-07	87601	7250	12494	82357
3.	2007-08	82357	4502	10416	76443

(B) Outstanding audit paragraphs of AGs Inspection Reports.

(As on 31 March 2008)

Sl. No.	Financial Year	PRI			
		Total No. of outstanding audit paragraphs	Addition	No. of paragraphs settled	No. of paragraphs Outstanding
1.	2005-06	2037	787	Nil	2824
2.	2006-07	2824	3029	Nil	5853
3.	2007-08	5853	3877	07	9723

Even after vigorous pursuance with the Finance Department, no audit committee was constituted in the State to discuss and settle the outstanding paragraphs resulting in large number of audit paras being left unsettled.

1.11 Non-refund of unspent balances of closed/non-operational schemes

As per guidelines of the schemes and instructions contained in the sanction by the Government the unspent balances of closed and non-operational schemes/ programmes should be refunded to the concerned department. Test check of

² Rs. 20.11 crore (2002-03: Rs. 4.03 crore, 2003-04: Rs. 4.04 crore and 2004-05: Rs. 12.04 crore).

records of three PRIs revealed that as sum of Rs. 81.21 lakh pertaining to various closed/non-operational schemes and programmes were lying in the bank account and not refunded to the Departments, as detailed below:

(Rupees in lakh)

Sl. No.	Name of the Unit	Period of ATIR	No. of Schemes	Amount
1.	Janpad Panchayat Nisarapur (Dhar)	2001-07	1	22.84
2.	Janpad Panchayat Sinhawal (Sidhi)	2005-07	5	27.33
3.	Janpad Panchayat Jaisingnagar (Shahdol)	2004-07	4	31.04
	Total			81.21

This resulted not only in blocking of funds but also in depriving the rural population from intended benefits.

1.12 Outstanding advances against individuals/executing agencies

Rule 49 of Madhya Pradesh Janpad Panchayat (Lekha Niyam), 1999 provides that advances for office expenses and transportation given to individuals/executing agency (Sarpanchs/Pradhans/Officials etc.) should be got adjusted immediately after incurring such expenditure, failing which the entire amount of advance should be recovered from the next salary or sums payable to them.

Test check of records of 11 PRIs revealed that in contravention/violation of the above provision, a sum of Rs. 43.07 lakh was outstanding against individuals/executing agencies for the last five years as shown in **Appendix - XIX.**

1.13 Incomplete works

In general the construction works taken up by Janpad Panchayat and Gram Panchayat should be completed within one year and in exceptional cases within two years.

Test check of records in 25 JPs revealed that 1603 works taken up under various schemes including SGRY were lying incomplete from 2001-02 onwards on after incurring on expenditure of Rs. 19.79 crore as detailed in **Appendix -XX.** Due to non completions of works, the intended benefit of the assets could not be provided to the beneficiaries. Further, the possibility of deterioration of these assets can not be ruled out with the passage of time.

1.14 Non-utilisation of SGRY grant under specified components.

According to Para 4.4 and 5.5 of the guidelines of Sampoorna Gramin Rojgar Yojna (SGRY), (effective from April 2002), 22.5 per cent grant from the allotment of funds at Janpad level should be utilised on the works relating to SC/ST beneficiaries and 15 per cent grant should be utilised on the maintenance of assets created from this fund for the prolonged use of such assets.

Test check of records of 12 JPs revealed that only Rs. 1.44 crore (55 percent) were utilised against the allotment of Rs. 2.61 crore (22.5 percent) on the works relating to SC/ST beneficiaries and negligible amount of Rs. 1.50 lakh was incurred on the maintenance of assets against the allotment of Rs. 2.39 crore as shown in **Appendix – XXI**.

1.15 Irregular allotment of houses to the male beneficiaries under Indira Awas Yojna (IAY)

According to Para 6 of the guidelines of IAY issued by Government of India (GOI) and para 5.5 of the guidelines issued by Government of Madhya Pradesh, the allotment of Plots and Awas should be made in name of unmarried woman or widow in the family or in the joint name of husband and wife.

Test check of records of 22 Janpad Panchayats revealed that 6048 Awas costing Rs. 12.66 crore as shown in **Appendix - XXII** were allotted to male beneficiaries in violation of the provisions of the Yojna.

1.16 Conclusion

Annual Accounts were not prepared by the PRI regularly. Details or receipts and expenditure of PRIs were not compiled at the State level. Approval of PAG on audit plan was not obtained by CLFA as envisaged under TGS module. The State Government has not formed a State Legislature Committee for discussion of CAG's Audit Reports on Local Bodies.

1.17 Recommendations

Steps to maintain budget and accounts in the formats prescribed by C&AG of India should be taken immediately. Arrangements for maintenance of data base on finances of PRIs at state level should be made. Steps to obtain approval of annual audit plan of CLFA from PAG and effective Arrangements for speedy settlement of outstanding audit objections are required to be taken up. A committee of the State legislature on the same lines as Public Accounts Committee be constituted.